

1 WASHINGTON STATE INSURANCE COMMISSION
2
3 PUBLIC MEETING
4 IN THE MATTER OF
5 THE PROPOSED CONVERSION OF PREMIERA BLUE CROSS
6 TO A FOR-PROFIT CORPORATION
7

8 September 30, 2002

9 at

10 Best Western Executive Inn
11 200 Taylor Avenue North
12 Seattle, Washington
13

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15
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Premera Blue Cross
Public Meeting

Page 2

I N D E X

1		
2		PAGE
3	Mike Kreidler - Insurance Commissioner	3, 75
4	Christine Gregoire - Attorney General	4
5	Jim Odiorne - Assistant Insurance Commissioner	6
6	Rusty Fallis - Assistant Attorney General	8
7	Gubby Barlow - CEO Premera Blue Cross	14
8	Yori Milo - Premera Blue Cross Executive VP	20
9		
10	Public Comment	
11	Mr. Len Eddinger	27
	Ms. Barbara Flye	30
12	Ms. Ele Hamburger	34
	Ms. Jean Roberts	38
13	Mr. Neal Koseff	41
	Ms. Kallijah Paraska	45
14	Ms. Ellie Menzies	50
	Ms. Sarajane Seigfriedt	52
15	Mr. Gordon Kinney	56
	Ms. Aretha Reed	57
16	Ms. Ruth Matthews	58
	Mr. Don Brunell	60
17	Mr. Jeff Mero	63
	Mr. Randy Revelle	66
18	Ms. Janet Varon	69
	Dr. Robert Crittenden	70
19	Dr. Gary Kaplan	72
20		
21		
22		
23		
24		
25		

P R O C E E D I N G S

(Monday, September 30, 2002, 6:04 p.m.)

COMMISSIONER KREIDLER: Good evening. I'm Mike Kreidler, Washington State Insurance Commissioner. And joining us this evening are Attorney General Christine Gregoire, also Assistant Attorney General Rusty Fallis, and Deputy Insurance Commissioner Jim Odiorne. Thank you very much for coming tonight and participating in this forum.

On May 30 of this year Premera Blue Cross notified me of their intent to convert from a nonprofit to a for-profit corporation. I ultimately will have to act as judge and decide the impact of this application, if approved, would have on consumers.

However, tonight we will be talking about the merits of the proposed conversion. Our primary concerns, from the standpoint of the Insurance Commissioner's Office with this application are going to be that consumers are not harmed in conversion, the potential effect on Premera's solvency, obtaining an accurate valuation of Premera's assets.

The Attorney General Gregoire is charged with overseeing the lawful distribution of the value of Premera's assets. I would like to turn to the Attorney

1 General for some opening comments.

2 MS. GREGOIRE: Thank you, Commissioner, and thank
3 you for coming out for this public meeting this evening.
4 We will do everything we can not only to take your
5 comments this evening, but as this process moves forward.

6 I'm going to later turn the program over to Rusty
7 Fallis to go specifically into the role of the Attorney
8 General's Office with regard to this matter, but let me
9 at the outset briefly state that our role is one to look
10 at the antitrust implications of any potential
11 conversion, and at the time of the formal hearing, to
12 communicate any concerns that we have with regard to
13 antitrust to the Commissioner in the process of his
14 making his ultimate decision.

15 Furthermore, under the Charitable Solicitation Act
16 and other statutory authority in Washington state, it's
17 the role of the Attorney General to approve -- if the
18 Commissioner finds that the conversion is approved -- to
19 approve and authorize the distribution of any funds for a
20 charitable purpose consistent with that of the nonprofit
21 organization, in this instance Premera. So at that point
22 in which the AG has to make any decision if, in fact, we
23 do, we will be consulting not only with the Commissioner
24 but with the public as well, as we proceed along that
25 line. But all of that at this point is premature.

1 We're anticipating four of these meetings throughout
2 the state. I look forward to participating with you,
3 Commissioner, and to hearing from the public any concerns
4 or issues that you want to us to look at more in depth
5 and follow up more in depth to ensure that consumers have
6 the nonprofit kind of availability of coverage they do
7 today, and this would not jeopardize, interrupt, or
8 compromise that ability to get that coverage or to have a
9 competitive marketplace for consumers in their
10 healthcare.

11 So, again, thank you, Commissioner. I look forward
12 to working you.

13 COMMISSIONER KREIDLER: Thank you, very much.

14 I would like to run over the evening's agenda just
15 very briefly here.

16 First, it is critical that we hear from the public
17 very early in the review process. This is clearly why we
18 are here this evening. We will keep our presentations to
19 a minimum.

20 We will begin with a ten-minute presentation by
21 Deputy Insurance Commissioner Jim Odiorne. Following
22 Jim, we will hear from Assistant Attorney General Rusty
23 Fallis, who will speak for ten minutes, and then Premera
24 Blue Cross will have 15 minutes to describe the
25 conversion proposal, and then we're going to open it up

1 to the public.

2 Jim?

3 MR. ODIORNE: Thank you, Commissioner. Good evening
4 and welcome.

5 We appreciate your attendance at this, our first
6 public forum on the request by Premera to convert to a
7 for-profit entity. As the Commissioner indicated,
8 Premera has filed what we commonly know as a "Form A."
9 Form A is required whenever as much as 10 percent of a
10 company transfers ownership.

11 On average, we receive two or three Form A
12 applications each year. This is the largest one we've
13 had in a long time. This one is a very complex
14 transaction. There will be a number of companies that
15 have to be converted, formed, and other filings required
16 under the holding company. All of those changes are
17 wrapped into one filing this time, but each has to be
18 analyzed individually and as it affects the whole
19 transaction. Included in that is the formation of new
20 companies, intercompany agreements between all the
21 companies in the holding company system.

22 Commissioner's authority is primarily in the Holding
23 Company Act for Health Carriers, which is found in
24 Chapter 48.31C. Under this act, the Form A transaction
25 requires a formal hearing before a final decision is

1 made. In that hearing, the Commissioner will be acting
2 as the judge, and for that reason, it's necessary to
3 limit certain access to him during this process.

4 In that process of walling off, we have set aside
5 certain people to assist the Commissioner, and the rest
6 of the staff will serve as the OIC review team. Team
7 will ultimately make a recommendation to the Commissioner
8 at the time of the formal hearing.

9 We have retained a number of experts to assist in
10 the analysis of this proposed transaction. We've
11 retained experts in the areas of investment banking,
12 actuarial analysis, accounting and tax matters, and legal
13 services. The apparent successful bidders in those areas
14 have prior experience in several other states where
15 conversions are either currently or have been processed.

16 Review team will work very closely with those
17 consultants in the development of our recommendation to
18 the Commissioner. The experts have been requested and by
19 contract will provide an executive summary of their
20 filings, and those we will make available to the public,
21 as soon as we can get them on the Net, anyway.

22 At one point we issued a preliminary time line that
23 suggested that we would complete this process in December
24 of 2002. We're going to take as long as necessary to be
25 sure the filing is complete and we have the information

1 from the consultants. So 2002 was a goal to shoot at,
2 but not set in stone. It will move.

3 Our intention is that as much information as is
4 legally possible will be made available to the public as
5 soon as we can. For instance, it's my understanding now
6 that there will be prefiled testimony in the final
7 hearing and that formal process. And we will post that
8 information on the Web site as soon as we can. Visiting
9 our Web site should give you a sense of how our review
10 process is coming along. We hope to keep it updated as
11 often as we can.

12 Thank you.

13 COMMISSIONER KREIDLER: Thank you, Jim.

14 Assistant Attorney General Fallis.

15 MR. FALLIS: The Attorney General's office has three
16 distinct roles to play in reviewing the proposed
17 conversion. The first role is as legal advisor to the
18 Office of the Insurance Commissioner. As is the case
19 with other state agencies, the Commissioner's office
20 receives legal counsel and litigation support services
21 from the Attorney General's office.

22 In the proposed conversion, we will have a lawyer or
23 lawyers available to provide legal advice to
24 Commissioner Kreidler with respect to his final decision
25 on those matters that are subject to his statutory

1 authority.

2 We will have a separate lawyer or lawyers available
3 to advise the commission staff in its development of its
4 case or recommendation to Commissioner Kreidler in the
5 adjudicative hearing.

6 This bifurcation or segregation of legal advice
7 reflects the requirement in the Administrative Procedure
8 Act that the final decision-maker in an adjudicative
9 hearing be insulated from people that have a stake in the
10 outcome of the hearing. This applies not only to the
11 agency's staff members but to their lawyers as well.
12 It's similar to the judicial concept that parties to
13 litigation and their lawyers not have private access to
14 the jury.

15 The idea is that the ultimate decision-maker is to
16 be objective and that the parties to the hearing -- that
17 no party to the hearing have an unfair advantage. So we
18 have structured our staff functions in a way that adheres
19 to the requirement in the APA that those persons --
20 lawyers and nonlawyers -- who take an advocacy position
21 in the adjudicative hearing not have inappropriate access
22 to the final decision-maker.

23 The second role that the Attorney General's office
24 will play will be to review possible antitrust issues and
25 other anticompetitive -- potential anticompetitive

1 effects of the proposed conversion. The Insurance
2 Holding Company Act specifically provides that the
3 Attorney General's office and the Insurance
4 Commissioner's office confer on these issues, and these
5 agencies will confer on those.

6 There is a separate team of lawyers in the Attorney
7 General's office who handle antitrust issues, and they
8 will review them and analyze them, and as they deem
9 appropriate, make their concerns or lack of concerns, as
10 the case may be, known to the Commissioner's staff.
11 Depending on what those lawyers find, they may or may not
12 choose to seek to intervene as a party in the
13 adjudicative hearing that the Commissioner will be
14 holding. That's ultimately their decision, not mine.
15 But I mention it because it's at least theoretically
16 possible that their review of the antitrust issues may,
17 in part, take the form of participating as advocates in
18 the adjudicative hearing.

19 The third role that the Attorney General's office
20 will play in the review of the proposed conversion is to
21 review the plan of distribution of assets. The
22 Washington Nonprofit Corporation Act provides in part
23 that, where there is a proposal to dissolve a nonprofit
24 corporation and the assets of that corporation are
25 required by law to be used only for charitable or other

1 similar public benefit purposes, then the Attorney
2 General must approve the disposition of those assets.

3 The common law authority to administer charitable
4 trusts provides similar authority to the Attorney
5 General. Nonprofit Corporation Act goes on to say that,
6 where there is such a corporation which is proposed for
7 dissolution, the assets are to be transferred to a
8 similar organization, meaning a private, nonprofit
9 organization with a similar purpose. And the review of
10 the Attorney General, therefore, involves a quantitative
11 and a qualitative analysis.

12 In practical terms, our review will involve two
13 major areas of inquiry. One is looking at the valuation
14 of the assets to make sure that the size or the amount of
15 endowment is appropriate. In this connection, our
16 decision, I expect, will be informed to an important
17 degree by the analysis of the investment banking firm and
18 the other technical experts that the Commissioner's
19 office will engage to help us in this analysis.

20 There will be subsidiary issues, I expect, such as
21 the timing and the structure of the sale of stock, which
22 is proposed to be transferred to the charitable
23 organization. These other kinds of issues could affect
24 the value of the stock and, therefore, the size of the
25 endowment. But, again, they relate to the first

1 principal area of inquiry, which is the valuation of the
2 assets for the size for the endowment.

3 Second primary area of inquiry will be to look at
4 the nature and structure of the charitable organization
5 which is proposed to be created. Again, the Nonprofit
6 Corporation Act and the common law of charitable trusts
7 provides that the assets of an entity that is to be
8 dissolved are to be transferred to a similar organization
9 which can carry on a purpose or purposes similar to those
10 carried out by the organization that's been dissolved.
11 So, for example, the mission statement of the charitable
12 organization that is to be created will be an important
13 element of whether this organization can carry on the
14 appropriate purposes.

15 We will also look at the articles of incorporation
16 and bylaws because those, as well, in practical terms
17 will have an important effect on whether that charitable
18 or public benefit purpose can be carried out. Again,
19 there will be subsidiary issues that we will look at,
20 things relating to whether there is any relationship or
21 proposed relationship between the charitable organization
22 and the new for-profit companies. The charitable
23 organization has to be independent, again, so that it can
24 carry out the charitable or public-benefit purposes.

25 One device or approach that's been used in some

1 other states that have been faced with conversions is the
2 appointment of a citizen's advisory committee, and that's
3 something that we're considering doing this instance.
4 This is a committee that could assist our office in, for
5 instance, developing an appropriate mission statement,
6 developing articles and bylaws for the new organization,
7 and possibly identifying potential board members.

8 In summary, those are the three primary functions
9 that our office will play. As Attorney General Gregoire
10 mentioned, there are going to be further public forums
11 and meetings, and we certainly invite people to
12 participate in those.

13 But if you would rather convey your concerns in a
14 more private or more informal manner, I certainly invite
15 you to call me or e-mail me. I will be available after
16 the meeting tonight and can give you my phone number and
17 other information so that you can call me or send me a
18 letter or whatever you'd like to if you have information
19 or concerns that you think my office should consider in
20 performing its role in these reviews.

21 Thank you.

22 COMMISSIONER KREIDLER: Thank you, Rusty. We now
23 have an opportunity for public comment, and I would like
24 to just kind of outline some of rules here for that
25 comment.

1 First, I'm going to call your name, and I would like
2 to have you, obviously, come up and take a seat right
3 here... (Pause.) Oh, thanks for reminding me. There is
4 another presentation.

5 Before we get to public comment, let me move to hear
6 from Premera since they did have 15 minutes -- didn't
7 they? -- and it is their filing that we have before us.
8 Like to call on Premera's Gubby Barlow.

9 MR. BARLOW: I think we got a buzz on this. Maybe
10 it's this. I don't think this is going to work.

11 COMMISSIONER KREIDLER: Is there some way to turn
12 these off so we don't get feedback off these other mikes?

13 MR. BARLOW: Well, if we turn off these other ones,
14 won't that help?

15 COMMISSIONER KREIDLER: They're working. See if
16 they can solve that. I think they may have done that.

17 MR. BARLOW: Well, thank you very much, Commissioner
18 Kreidler, Attorney General Gregoire, Commissioner
19 Odiorne, and Assistant Attorney General Fallis. Please
20 excuse my back. It's rather awkwardly situated here
21 tonight, so if you will indulge me so that I can face the
22 audience here.

23 Well, thank you all for being here tonight and for
24 showing your interest in our proposal to raise capital as
25 a public company.

1 Before I begin, in case any of you are here with
2 customer service needs, we do have someone who can
3 assist. We have Laurie Scott, who is our director of
4 customer service -- Laurie, could you stand, please -- to
5 answer any questions that you may have.

6 Well, as it's been pointed out, it is four months
7 since we announced our proposal to convert to for-profit
8 in the spring. Since then, many people have come forward
9 with words of support and certainly with many questions
10 about what we are doing. People are asking, Why is
11 Premera proposing to convert? Will a conversion result
12 in a focus on Wall Street instead of our customers? Will
13 premiums rise as a result of this conversion? Or will we
14 squeeze payments to physicians, hospitals, and other
15 providers?

16 And questions about success bonuses payable to
17 management. Will there be any? Does Premera want to be
18 taken over by another large out-of-state insurer? And if
19 not, how is Premera going to prevent that happening?

20 There's also a great deal of interest in our
21 proposal to fund health initiatives in the states of
22 Washington and Alaska by dedicating 100 percent of the
23 initial stock of the company to that purpose. People are
24 asking, How will it be determined how that money is
25 spent? And who will control the resulting charities that

1 we are proposing?

2 These are, of course, important questions and
3 deserve to be discussed fully with the public. I'm
4 confident that we can provide very good answers to all of
5 these questions. More importantly, I know that our
6 proposal will not be approved unless we have addressed
7 every one of these questions to the satisfaction of our
8 state's officials.

9 So to begin, Premera Blue Cross is a Washington
10 state corporation, nonprofit. We are the largest private
11 company, at last count, in the State of Washington with
12 3,000 employees. We serve 1500 people in three states.
13 We have our roots in Washington where we started. One of
14 our predecessors was started in 1933. We started up in
15 Alaska in 1957, and we bought an Oregon-based company in
16 1994. And we have just announced that we are starting an
17 affiliate in Arizona.

18 So why does this company exist at all? I believe
19 that people buy health insurance for one reason: To
20 obtain peace of mind. And that is what the mission of
21 our company is about: Providing peace of mind to our
22 members about their healthcare coverage.

23 Now, for us, delivering on that mission means
24 several things. Firstly, it means being financially
25 stable. It means providing broad choices of products,

1 physicians, hospitals, other providers. It means that
2 the company provides excellent service, and it means that
3 we support growth.

4 Growth not only responds to the needs of new
5 customers, but it also helps existing customers in that
6 we can spread the cost of our investments and our general
7 administrative costs over a broader base to the benefit
8 of all.

9 And because all healthcare is local, we believe that
10 the best way to serve our members is being a locally
11 based, locally managed company. That has been our
12 strategy as a nonprofit. That would be our strategy as a
13 for-profit.

14 So why, then, does Premera want to convert? Because
15 going public, simply stated, gives us access to capital
16 to better accomplish our mission. We float in a
17 capital-intensive world in healthcare. We need capital
18 for several reasons: First, to maintain our insurance
19 reserves; second, to invest in new technologies, new
20 products; and third, to serve more customers.

21 As a nonprofit, our source of capital is very
22 limited. It's basically based upon our operating
23 profits, and that is a very slim margin. 19 -- I'm
24 sorry, in 2001, our operating profit was a slim 1 cent on
25 the healthcare dollar.

1 Now, you should know that we have explored other
2 sources of capital but have rejected that. For example,
3 we've considered mergers as one of the large
4 Washington-based nonprofits has considered a merger with
5 a very large Illinois company. We've rejected that form
6 of capital because it would mean that we would lose our
7 independence and that goal of being an independently
8 managed company based here in Washington.

9 So let's turn to the concerns that I've heard about
10 this conversion, as to the effects on -- of Wall Street
11 on the company. Now, I've said this many times. I'm
12 sure you've read it in the newspaper, but I'll repeat it
13 for the record here. The company that focuses on its
14 stockholders first and its customers and other
15 stakeholders second is doomed to fail on both fronts.
16 Our mission and dedication to our members remains the
17 same whether we are for-profit or nonprofit.

18 Secondly, conversion will not affect the amount that
19 we charge our customers or the amount that we pay
20 physicians and other providers. Today we serve in a very
21 competitive healthcare marketplace, competing with
22 for-profits and nonprofits alike. We charge our
23 customers the market price, and we pay doctors and
24 hospitals what the market demands. Clearly, market
25 forces are independent of and unaffected by our capital

1 structure.

2 Third, some conversions have led to significant
3 bonuses, success bonuses paid to management upon
4 completion of the merger. In the case of Premera's
5 conversion, there will be no bonus paid for the
6 successful completion of this transaction.

7 We have -- we have not, at this stage, a proposal
8 for any stock-based compensation either. Not to say that
9 there will not be, but these will be looked at by our
10 board, which is comprised of well-respected independent
11 members of the community, physicians, and other business
12 leaders. And if they do approve any stock plans, those,
13 of course, would be submitted as part of our filings to
14 be approved by our state officials.

15 The fourth and most often-asked question is: Does
16 the company plan to sell itself? The answer is a simple
17 no. We have repeatedly said, and even in today's
18 presentation, that we plan to remain an independent,
19 locally managed company. Our board has determined this
20 to be so. We fully intend to include in our filings all
21 of the antitakeover provisions that are available to us
22 under Washington state law.

23 There's also another very important point to be
24 made, that after conversion, even if the company were to
25 consider selling itself, such a transaction would be

1 subject to examination by the Commissioner and other
2 state officials just in the same way as a conversion.
3 And we know that this would not be approved without such
4 approval -- it would not occur without such approval.

5 So to sum up, I believe that a conversion has three
6 wonderful wins for the State of Washington. First, for
7 our members, in that the company would have the capital
8 to serve our members better. Secondly, for our state, in
9 that a local company will be growing, providing
10 additional jobs, and supporting our tax base. And
11 finally, for the people of Washington and Alaska, a very
12 essential pool of funds will be dedicated to health
13 initiatives in these two states.

14 Thank you. I now ask Yori Milo, one of our
15 executives, to add some more detail to our proposal.

16 MR. MILO: Well, Gubby spoke about the reasons we
17 want to change our corporate form to a stock company;
18 that is to access capital. I'm going to be talking a
19 little bit more specifically about what we're proposing
20 to do, how we propose to reorganize as a stock company,
21 and also talk a little bit about our charitable
22 organizations that would carry out the mission and the
23 legacy of the foundation that would be created out of the
24 conversion.

25 So when we talk about "conversion," maybe a good

1 starting point is to think about what that term really
2 means. And what we'd like to do is talk a little bit
3 about the current Premera family of companies, how
4 they're organized, and how after a conversion it would be
5 reorganized and what it would look like in that context.

6 So with that, I would like to flash on the screen,
7 if I could. This is a chart that shows the current
8 structure of the Premera family of companies, and as you
9 can see, the green companies are the nonprofit companies
10 in our organization.

11 Can't tell what that color is. Is that red? Blue.
12 The blue designates companies that are for-profit today.
13 So as you can see, today we're a mix of for-profit
14 companies and nonprofit companies. For example -- let's
15 see if this thing works. Not too well. Nope. Premera
16 Blue Cross. Premera Blue Cross is our main operating
17 company. It is a non-profit company. It has been so
18 since its inception, and it offers healthcare coverage
19 policies in both Washington and Alaska.

20 By contrast, Lifewise of Oregon, down there at the
21 bottom right in blue, also sells health insurance
22 coverage in Oregon. It is a for-profit company. It has
23 been a for-profit since it joined the Premera group of
24 companies, and it was a for-profit when it was initially
25 organized.

1 Which actually leads to a question: So what is the
2 difference between a for-profit and a nonprofit company?
3 Well, a key difference is that a for-profit company has
4 shareholders, and stockholders get their stock by buying
5 it, by paying to the company money which then goes to
6 support the capital and operating needs of the company.

7 Nonprofit companies don't have stockholders. And if
8 you look at Premera, the upper tier company in our family
9 of companies, there are no shareholders, which means that
10 we must raise capital solely by our -- the profits from
11 our operations. And what we're looking to do is to
12 create a stock-based company that can sell stock and
13 generate capital for our operations and reserves.

14 While there are differences between for-profits and
15 nonprofits like Premera as we are currently organized,
16 there are also misperceptions about similarities between
17 nonprofits and for-profits. Premera Blue Cross is not a
18 tax-exempt charitable organization. It pays taxes both
19 on a state level and a federal level. In 2001 it paid
20 over \$37 million to the State of Washington, the same
21 amount it would have paid had it been operating as a
22 for-profit company during this period, and it also paid
23 federal taxes. It paid over \$10 million in federal taxes
24 to the government in 2001.

25 For-profits and nonprofit insurance companies are

1 also regulated in the same manner under the auspices of
2 the Office of Insurance Commissioner, under the same
3 rules and regulations which apply equally to for-profits
4 and nonprofits. So in summary, although there are
5 similarities between for-profits and nonprofits, the main
6 distinction is the ability to have shareholders and the
7 ability to raise capital.

8 What I would like to do now is move to what it would
9 look like after a reorganization consistent with the
10 documents we've filed with the Office of the Insurance
11 Commissioner. This is our proposed structure, and you'll
12 see -- this thing doesn't work well -- these companies in
13 blue down here are the same family of companies that you
14 saw in the prior chart but now reorganized in for-profit
15 form. And that reorganization would be through a series
16 of transactions that are described in the materials that
17 we've filed with the Office of Insurance Commissioner
18 and, I believe, are actually now on the Web site as well
19 for your review. Those are the transactions that need to
20 be reviewed by the Office of the Insurance Commissioner
21 as well as by the Attorney General.

22 The organizations that you see at the top of the
23 chart in green are the new charitable organizations, and
24 I'd like to spend a minute talking about them. Gubby had
25 mentioned that we are proposing to dedicate 100 percent

1 of the initial stock on conversion to support charitable
2 initiatives. That would be done by transferring 100
3 percent of the stock of New Premera to the foundation
4 shareholder, a charitable organization, which has two
5 purposes: to hold and sell the stock, and then, to
6 distribute the proceeds so that those proceeds are used
7 for charitable purposes.

8 Those charitable purposes would be carried out by
9 two new charitable organizations, one for Alaska and one
10 for Washington, that would receive the proceeds of that
11 stock in allocations agreed to by the states of
12 Washington and Alaska as part of the conversion approval.

13 People have asked about the independence of these
14 charitable organizations. I know that Rusty had said
15 that was a concern that would be reviewed as part of the
16 review process. As part of our proposal, we propose no
17 interrelationship between Premera, the Premera company,
18 and its charities. The charities would have an entirely
19 independent boards, there would be no representation of
20 Premera or its representatives, no control over their
21 operations.

22 We also know that there is a lot of interest in what
23 the charities would do, what their purposes would be.
24 And as part of our planning, we have some ideas about
25 what we think would be good things to do: To help

1 address unmet healthcare needs of underserved populations
2 in our state; education of physicians, nurses, and
3 caregivers who are committed to serve in underserved
4 areas; and in general, to form a legacy endowment to
5 support health initiatives throughout our community.

6 But we also recognize state officials and the
7 community have an interest in what this charity would do.
8 As part of our filing, we acknowledge that and invite the
9 Office of the Insurance Commission and Attorney General
10 to help get community input on what the charter document
11 should provide.

12 Now, we've talked about the charitable
13 organizations. As Gubby said, the purpose we're looking
14 to convert is to raise capital for the company so that it
15 can fund its operations and reserves. The way the
16 company would do that is by New Premera issuing new
17 shares, selling those shares in the public market, that
18 is the stock markets, the proceeds of which would go to
19 fund company operations.

20 In conclusion, we've taken a look at all the
21 conversions that have taken place over the last decade in
22 the US and tried to learn the lessons from those
23 conversions, to understand the concerns of other
24 stakeholders in the community, and try to address those
25 concerns in the way we've structured our proposal.

1 We know you have a lot of questions and concerns.
2 We know those need to be considered as part of the
3 conversion approval process. We want to hear those
4 issues as well. We thank you for coming, and thank you,
5 Attorney General Gregoire and Insurance Commissioner
6 Kreidler, for letting us present.

7 COMMISSIONER KREIDLER: As I started to say, my
8 scripture ran right from Assistant Attorney to public
9 comment. That was my undoing, and I apologize for not
10 calling on Premera immediately.

11 Let me say that, as part of the details for
12 commenting tonight, when I call your name, obviously, I
13 want you to come up here to have a seat. There's an
14 additional seat up here. I would like to call on the
15 person who will be next up so that they will have an
16 opportunity to speak.

17 I would like to -- it appears right now that we can
18 do -- three minutes? -- three minutes apiece for
19 testimony. And the principal reason for holding it to a
20 strict time limit is to make sure that everybody who has
21 signed up has an opportunity to comment. As you can see,
22 we are transcribing this entire forum to make sure that
23 we have an accurate record of this evening's proceedings.

24 If you have written comment, I would urge you to
25 summarize your comments. If indeed it's necessary in

1 order to remain within the time limit, your written
2 comments may be submitted to our timekeeper who will
3 raise her hand over here, Diane Prigge, and she will be
4 able to take any prepared comments that you want to
5 formally submit. When you come forward, I would ask you
6 to state your name clearly, make your comments directly
7 into the mike so that the written record is precise.

8 I would also like to point out that we've designed
9 these forums for the express purposes of taking comments
10 early in the process here of reviewing Premera's
11 requested proposal. We will have further opportunities
12 for public comment later. This is the preliminary. We
13 anticipate that there would be another round of public
14 forums that would afford people the opportunity to speak
15 when we have additional information.

16 Let me point out that we are not prepared tonight to
17 answer questions or engage in rebuttals or debate. We
18 have many questions ourselves. Your questions will be
19 included in the record and will be certainly considered
20 as a part of the overall review process.

21 That said, I would like to now begin by calling the
22 individuals. First up, call on Len Eddinger. Sir, would
23 you come forward, and then, also, the next person up,
24 Barbara Flye.

25 MR. EDDINGER: Good evening, Commissioner Kreidler,

1 Attorney General Gregoire, members of staff, I'm Len
2 Eddinger, director of public policy for the Washington
3 State Medical Association, and I work --

4 MADAM REPORTER: Sir, sir, I need you to ask you to
5 slow down your speech a little bit for me, please.

6 MR. EDDINGER: Then I can't make it in three
7 minutes.

8 COMMISSIONER KREIDLER: Summarize.

9 MADAM REPORTER: Thank you.

10 MR. EDDINGER: I'm Len Eddinger. I'm director of
11 public policy for the Washington State Medical
12 Association, and I work primarily in Olympia for the
13 association. I am here on behalf of the 8,800 physicians
14 and surgeons in the state that belong to the association.

15 And I'm here to testify in opposition to the
16 conversion of Premera from a not-for-profit to a
17 for-profit insurance company and ask you as regulators to
18 slow your process so that organizations like ours could
19 have more time to carefully review this particular
20 proposal.

21 And at our recent annual meeting in Tacoma, our
22 house of delegates voted unanimously to oppose the
23 Premera conversion. Our house of delegates is
24 comprised -- county and virtually -- medical specialty
25 society. Its members come from every type of setting,

1 academia to large groups to individual practices. And I
2 offer this because it's significant that a resolution on
3 such an important issue should pass without a dissent
4 vote. Our leadership believes that it's been told in no
5 uncertain terms that the proposed conversion is of
6 serious concern to our members.

7 Let me summarize real quickly for you, Commissioner
8 Kreidler and Attorney General Gregoire, and I'll submit
9 this to writing some of the specific concerns that we
10 have.

11 In areas of Washington State where Premera is
12 functionally a single payer, such as in Eastern
13 Washington, what impact will this conversion have on the
14 market and the physician and hospital networks? Our
15 members feel it would be negative, and they can expect
16 reduced fees for their services, or worse yet, that the
17 company, again needing to satisfy its new stockholders,
18 will leave the market where it cannot realize a
19 sufficient return on investment.

20 What exactly is the thinking of management on why it
21 needs to convert to for-profit? Exactly how threatened
22 is the plan? To what use will the newfound capital be
23 put? The experience nationally seems to be that capital
24 raised through such conversions has been used to acquire
25 other plans. We -- the representatives from Premera

1 talked about the concern that we have relative to: Are
2 they positioning themselves to become an acquisition
3 target for larger national organizations?

4 We're concerned that the management of the company
5 in this new environment will be concerned about growing
6 the company to make it a more attractive acquisition
7 target rather than attending to the needs of subscribers
8 or its network in our state.

9 To both of you, I will stop here and put, again, my
10 testimony in writing and submit it for your record. I am
11 trying to stay within the three minutes.

12 COMMISSIONER KREIDLER: Thank you, Mr. Eddinger.

13 MR. EDDINGER: Thank you.

14 COMMISSIONER KREIDLER: Barbara Flye, and following
15 Barbara Flye, if Ele Hamburger would come up.

16 MS. FLYE: Commissioner Kreidler, Attorney General
17 Gregoire, thank you very much for the opportunity to
18 speak today.

19 My name is Barbara Flye, and I'm executive director
20 of Washington Citizen Action. The WCA is a
21 community-based organization that has over 50,000 members
22 across our state, and thank you for the opportunity to
23 speak to you today.

24 MS. PRIGGE: A little slower, Barbara, please.

25 MS. FLYE: Premera's conversion raises many concerns

1 about the impact on Washingtonians' access to healthcare
2 and the affordability of coverage. We know, for example,
3 in the state of Kansas that conversion was denied by the
4 insurance commissioner because they deemed that there was
5 significant increases in rates to those consumers. And
6 we also have considerable concerns about the impact on
7 publicly funded healthcare programs in our state.

8 Premiera covers 637,930 lives through Washington's
9 publicly funded healthcare programs, and so we're
10 concerned about their continued commitment to those
11 programs as well, as well as the commitment on rates.
12 And secondly, the future of the considerable nonprofit
13 assets that it currently holds estimated to be worth as
14 much as \$2.1 billion.

15 First and foremost, we believe that this should be a
16 public process, and thank you for these first set of
17 public hearings and the second set that you intend to do.
18 And I want to encourage you to continue to make this a
19 public process and involve stakeholders from around the
20 state as you deliberate and look at the information that
21 you were given by the consultants that you've attained.

22 Secondly, we believe that as part of that process,
23 we believe it's very important to conduct a health impact
24 evaluation to look at the impact of the proposed
25 conversion on all of Washingtonians.

1 Thirdly -- and I can submit some comments too to
2 sort of sum up a little bit -- coming back to the impact
3 on subscribers of the health carrier and on the general
4 public, just wanted to mention a few things we think
5 would be important for you to consider as part that: The
6 impact on premiums for current or future Premera
7 enrollees, what is the expected rate of increase? Impact
8 on premiums for current or future Premera enrollees given
9 specific counties of the state where they may be the only
10 company offering coverage; impact on Healthy Options and
11 basic health given the current level; impact on physician
12 and provider networks in the areas of the state where
13 Premera is the dominant carrier; and the effect on the
14 individual and small-group market.

15 Our concerns are not only around Premera enrollees
16 and potential future Premera enrollees but what might be
17 impacts if we have a domino effect, in effect, if Premera
18 goes for-profit, if Regence decides they want to go
19 for-profit, what might be the impacts on Group Health,
20 for instance, in our state that's already struggling. So
21 we have concerns in general about the insurance going
22 public in our state as a result of this proposed
23 conversion.

24 Additionally, we have concerns about the valuation
25 and securities concerns that were raised with the

1 proposed transaction. If the transaction is approved, we
2 want to ensure that the full value of the corporation is
3 taken into consideration; not just what it might get at a
4 first offering on the stock market, but including things
5 like the goodwill of the company, and that it was
6 mentioned that the company's been around since 1933 in
7 our state. We believe that that's worth a lot to the
8 State of Washington, so we would hope that you would take
9 that into consideration.

10 The private inurement issue was mentioned. We
11 believe that that's really important for you to take a
12 look at given what's happened in other states on that
13 issue.

14 To close, overarching for Washington Citizen Action
15 members is really the very first consideration, whether
16 this conversion should be allowed to go through or not
17 based on the potential impacts of the insurance-buying
18 public. We think it's a very serious proposal that they
19 put forward and believe that the impacts could be
20 considerable given what we've seen around the country.

21 And given what we know, we want to make sure that
22 you all consider as you're looking towards this and
23 really encourage you, in addition to the other
24 consultants that will look at the value and things like
25 that, to really look at the health impacts that will

1 result as a part of this conversion and take the time to
2 do that.

3 Thank you.

4 COMMISSIONER KREIDLER: Thank you very much, Barbara
5 Flye.

6 Ele Hamburger, then following Ele, if Jean Roberts
7 would come up.

8 MS. HAMBURGER: Good evening and thank you very much
9 for the opportunity to testify here tonight. My name's
10 Ele Hamburger. I'm an attorney with Columbia Legal
11 Services, and I'm appearing on behalf of my client, the
12 Welfare Rights Organizing Coalition, which is a statewide
13 coalition of grass-roots -- statewide grass-roots
14 organization of low income consumers, most of whom
15 receive Medicaid services.

16 Our -- my clients are very concerned about what's
17 going to happen to the involvement of Premera in the
18 Medicaid program as a result of this change. The Premera
19 presentation said that -- overly simplified the real
20 differences between for-profit and nonprofit companies.

21 And one of the major difference that wasn't
22 mentioned is the difference in mission. Premera has been
23 a non-profit with a mission dedicated to the social
24 welfare of this community. As a for-profit, that mission
25 will disappear and instead will be replaced by a mission

1 required by law to increase profits for its owners and
2 shareholders. And that mission could have very severe
3 impact on the access to services for low income people
4 who participate in the Healthy Options program and who
5 really rely on Premera, especially in rural areas, to
6 ensure access to their Medicaid coverage.

7 By way of background, before I move here to
8 Washington state six years ago, I worked at Consumer's
9 Union on the Blue Cross in California conversion and also
10 helped start the national project on Blue Cross of --
11 Blue Cross conversions and worked on the conversions in
12 Ohio and Colorado and Missouri.

13 And early on in those transactions, insiders and top
14 executives became overnight multimillionaires off of
15 these types of transactions. The Blue Cross of
16 California regulators started paying quite a lot of
17 attention to both the health impacts of the transactions
18 and what was happening to the money, what was the -- were
19 the conversions being fully valued and who was making
20 money off the transaction. And I'm very pleased to hear
21 that those same questions and concerns are being
22 considered as part of this review.

23 One of the things that deeply concerns us about the
24 documents that have been filed so far, first of all,
25 Premera has made some of the documents available to us

1 but not all of the documents. And we're concerned that
2 all of the documents be made publicly available. They
3 are critically important for the public in order to
4 evaluate whether this transaction is in the public
5 interest.

6 It appears that there are some documents that are --
7 would be very helpful to analyzing this transaction that
8 have not been made public by Premera at this point.
9 Nothing in the documents that have been made available
10 address this issue about what the health impact is of the
11 transaction. Will Premera stay in the public programs?
12 Will they continue to serve in rural areas? Will they
13 continue to serve in the Healthy Options program? That
14 information has not been included nor is the information
15 about stock options and other possible financial
16 benefits.

17 And some transactions in other states, there are
18 wide variety of mechanisms involved in which individuals
19 can make profit off of these transactions, including
20 severance packages that get triggered by the end of one
21 corporation and the creation of another, when essentially
22 they're simply changing -- staying in the same job as the
23 corporation changes around them.

24 Another issue that deeply concerns us is to ensure
25 the complete independence of the foundations that receive

1 the proceeds from the Premera transaction. In the
2 presentation before, there was discussion about the
3 charitable organizations but not the independence of
4 this -- what Premera's describing as the "foundation
5 shareholder."

6 In fact, it appears, based upon the documents that
7 have been provided so far, that the foundation
8 shareholder will be tightly controlled by the Premera
9 board. It would not be able to vote the stock
10 independently or sell the stock independently, and there
11 will be restrictions that Premera proposes on how it
12 gives the money out, essentially extending Premera's
13 control to the charitable foundations as well.

14 The idea of a citizen's advisory committee on how
15 those foundations would be constituted is very appealing,
16 and my experience with it in California was very
17 positive. But it needs to be for all of the
18 organizations that receive the funding, including this
19 foundation shareholder. The independence of the
20 foundation shareholder is critically important.

21 To sum up what has been disclosed so far does not
22 address our client's questions or concerns regarding
23 whether the transaction is in the public interest. We
24 urge that the full filing be made public and that the
25 public be involved and have an opportunity to present its

1 concerns throughout every stage of this process.

2 And appreciate your giving us this opportunity
3 tonight. Thank you.

4 COMMISSIONER KREIDLER: Thank you very much, Ele.

5 Let me point out that the initial filing that was
6 submitted to our office is already posted on our Web
7 site, and the additional supplement to that was filed, I
8 believe, on Friday. It's about 500 pages that will also
9 be added. So about 1500 pages associated directly with
10 the filing will be available on our Web site. And I'll
11 give that quote here before we're done.

12 And we now have Jean Roberts, and following Jean
13 Roberts, we'll have Neal Koseff. Am I pronouncing
14 correctly?

15 MR. KOSEFF: Yes, that's good enough.

16 COMMISSIONER KREIDLER: Why don't you come up, too,
17 and be on deck.

18 Jean?

19 MS. ROBERTS: Thank you for the opportunity to come
20 and share some of my thoughts. I am Jean Roberts. I'm
21 the administrator at Mark Reed Hospital in McCleary,
22 which is located between Aberdeen and Olympia.

23 The hospital has always been operated by Grays
24 Harbor County Public Hospital District No. 1. We're one
25 of the smallest hospitals in the state, licensed for 24

1 beds. I'm currently president of the association of
2 Washington Public Hospital Districts, and those districts
3 represent about -- almost 50 hospital districts
4 throughout the state, which play a significant role in
5 providing healthcare to the State of Washington,
6 particularly in rural areas.

7 At our Hospital District Association board retreat
8 in August, the board voted to oppose the conversion of
9 Premera to for-profit status. I've taken time to attend
10 this meeting because I think it's important that we're
11 able to continue to provide care in rural areas in
12 Washington. I'm concerned about how the Premera
13 conversion would affect rural areas.

14 I understand that after conversion in other states,
15 the new for-profit plans have looked very closely at
16 those areas where they were not profitable, and many of
17 those, undoubtedly, were rural areas. And they have
18 frequently discontinued plans in those areas. I'm
19 concerned that this could very well happen in Washington
20 in the rural areas, and I'm concerned about how that
21 would affect small rural hospitals, physicians, clinics,
22 and most of all, our patients that we serve.

23 I am concerned that there could eventually be fewer
24 plans to choose from, and in rural areas there aren't
25 many plans to choose from to begin with. I'm concerned

1 about Mark Reed Hospital and its ability to provide
2 insurance for our employees, and we are all covered by
3 Premiera Blue Cross. We pay high premiums and cannot
4 afford to pay even higher premiums or have less options
5 for coverage. And I do -- I am concerned that with the
6 for-profit status, those premiums would very likely go
7 up.

8 I noticed on the handout this evening, one of the
9 main concerns -- the primary concern was that consumers
10 not be harmed, and I am concerned about that. I'm also
11 concerned about the potential for the decreasing ability
12 for hospitals to negotiate contracts for care.

13 Someone else mentioned Kansas. And I know -- I
14 understand that in Kansas, which is a very rural state,
15 the conversion and purchase by a company from outside of
16 the state was denied. And as the other person said,
17 because it was not in the best interest of the public.
18 And I'm fearful that it may not be in the best interest
19 in Washington.

20 If Premiera converts and then is purchased by a
21 health plan from outside Washington, the flow of money
22 could very likely go out of the state, and I don't
23 believe that Washington state can afford that.

24 In Massachusetts where Harvard Pilgrim HealthCare
25 was in precarious financial condition in 2000, there was

1 speculation that it would be acquired by a national
2 for-profit health insurer. And at that time Dr. Peter
3 Levine, who was president at the University of
4 Massachusetts Memorial Medical Center, stated: "The
5 principal goal of these companies, by definition, is the
6 financial success and happiness of their shareholders as
7 opposed to patient satisfaction and healthcare outcomes."

8 I think there are many hospitals and clinics in
9 rural Washington which provide access to healthcare to
10 those who choose to live in the rural areas of our state.
11 I believe that the conversion of Premera to a for-profit
12 status would very likely have a negative effect on rural
13 hospitals and physicians and our patients.

14 Thank you.

15 MS. GREGOIRE: Thank you.

16 COMMISSIONER KREIDLER: Thank you very much, Jean.

17 Neal Koseff. Maybe you can tell me how to pronounce
18 it.

19 MR. KOSEFF: Yeah, that's Koseff. Yeah, hi, my name
20 is Neal Koseff, and I want to apologize. Everyone's here
21 with formal presentation and suits and ties. I just
22 found out about this today reading the newspaper, and
23 everybody represents formal groups. I just kind of
24 represent myself. I'm a customer.

25 COMMISSIONER KREIDLER: Could I just interrupt you

1 for a second? I didn't call up the on-deck person. If I
2 might do so, I'm going to struggle on the first name, but
3 the last name is Paraska? Want to come up?

4 Please excuse me for interrupting you.

5 MR. KOSEFF: That's fine.

6 COMMISSIONER KREIDLER: Also, if I might introduce
7 State Senator Pat Thibaudeau is also here. Thank you,
8 Pat, for coming to speak.

9 MR. KOSEFF: As I mentioned, I don't have a formal
10 presentation, so I'm just going to speak off the top of
11 my head. I live in the Green Lake area of Seattle. I'm
12 55 years old and have been a, quote, customer, of Blue
13 Cross Premiera for the last 20 years, of which the last 12
14 has been continuous since 1989, but maybe over my
15 lifetime over 20 years.

16 Let me say, they mentioned the word "customers," and
17 there's actually a couple different groups of customers.
18 I've broken it down into two groups: The blessed and the
19 cursed. The blessed customers are people like yourself,
20 state employees, where you're a large group and they give
21 you good deals, like Boeing employees likewise.

22 And then there's the damned that are cursed like
23 myself who are members of the general public who have to
24 just pay whatever they tell me year after year, and we
25 have absolutely no representation by anybody. In fact, I

1 think we used to be about two or three hundred thousand,
2 and now we are down to 50. That's how good the
3 customers' relationships have been.

4 Every year I have to dread my health insurance going
5 up. I mean, I'm 55. It's like Russian roulette. They
6 just raised it 30 percent. It's the single largest thing
7 I have to pay every month. It's even higher than my
8 mortgage now. And I -- to be honest, I don't know all
9 the subtleties of what they want to do, but I'm
10 questioning why all of this. Okay? I'm very mistrustful
11 of what they want to do. I think they're not out for the
12 customers' best -- at least my best interests. Okay?
13 Again, they have different groups of customers.

14 But admittedly, I do not know all the details. Let
15 me also say that what I don't want to see happen is my
16 rates to go up any higher. I read in a newspaper today,
17 they were dangling millions of dollars for you guys, you
18 know, for the State to use to spend if you go along with
19 this. And then they keep talking about the, quote,
20 charities.

21 I need charity now. I've gotten to the point where,
22 you know, if they told me tomorrow I have to hand over my
23 house, I would have to do that, even though I'm in good
24 health. There aren't many choices for me, and I'm
25 fearful of this.

1 And all I can say in the last minute here is there's
2 been in the last couple years a lot of conversion from
3 public to private. Look what happened with energy
4 deregulations. I'm sure Enron and all those companies
5 down in California went down there and said, "Oh, we're
6 going to do wonderful things. We're going to make it
7 more competitive." The truth of the matter was totally
8 opposite.

9 On top of that, all in the last year that is come
10 out with the absolute incredible number of
11 misrepresentations by corporations and lack of honesty, I
12 would be afraid to turn this over to any private
13 organization.

14 And, also, I would say to you to, please be a little
15 bit better than your predecessor, Ms. Senn, I think her
16 name was. Every time I would call her office, they would
17 tell me, "Blue Cross is not allowed to raise your
18 premiums."

19 And I would tell them, "They just raised them, and
20 if I don't pay it they're going to cut me off."

21 And they said, "No, no, they can't raise it. We
22 told them they can't do it."

23 So hopefully, your office will start to realize that
24 another group of people out there who are unfortunate
25 enough to foot the bill of the other charity case, but I

1 have to foot the bill for charity cases and everybody
2 else. And frankly, absolutely nobody cares about our
3 group. That's why we have gone from hundreds of
4 thousands down to 50,000 with such great customer service
5 from Blue Cross.

6 Thank you.

7 COMMISSIONER KREIDLER: Thank you very much.

8 And I'd like to call on Ellie Menzies to come up for
9 the on-deck position. And do I pronounce your name
10 Kallijah?

11 MS. PARASKA: Kallijah.

12 COMMISSIONER KREIDLER: Kallijah?

13 MS. PARASKA: Kallijah Paraska.

14 I'm senior vice president of a local brokerage firm.
15 I've actually been on the employer's side. I was an
16 actual purchaser of healthcare for our corporation, and
17 I've had about 2500 employees.

18 And about 11 years ago, I converted to the
19 brokerage/consultant side. The primary reason I made
20 that conversion was because my broker would always come
21 in and give me 15 to 25 to 30 percent increases. I felt,
22 on a group of 2500 employees actuarially, I should be
23 able to spread the risk. And my broker couldn't explain
24 to me what it was that was causing the cost increase.

25 So when I went over to the broker side, the first

1 thing I noticed is that there's probably about 40 state
2 laws that apply to group health insurance in this state,
3 and each time a new state mandate -- or comes in and
4 increases, that increases the cost to my employer group.

5 So as an example, when we had oral contraceptives,
6 which came into effect on January 1, most of insurance
7 companies came back and charged the consumer an average
8 of 2 to 5 percent for that increase in the rates. But
9 that's part of my job as a broker, to be able to explain
10 that to them.

11 The things that my clients are most concerned about
12 is they're concerned about access to physicians, which me
13 being a consumer, I'm also concerned about access to
14 physicians. I want to make sure the physicians get paid
15 well. The primary reason for that is so that I can
16 continue to have that access as well as my clients can.

17 The thing that we continue to see in the State of
18 Washington is a movement of the physicians out of the
19 State of Washington due to all the state mandates that we
20 have, and they can't afford to operate in this state.

21 That being said, the other things that are going to
22 be coming down the government side which I feel impact
23 the insurance company's ability to continue
24 profitabilitywise is HIPAA. HIPAA on average is going to
25 cost about \$10 million a year to each insurance company

1 to protect the patients' privacy, which I think is a
2 needed -- is a needed benefit.

3 But at the same token, if we are dealing with a
4 nonprofit company, my concern is: Is that going to hit
5 the bottom line of the consumers, and are those rate
6 increases going to go up further if access to capital
7 markets cannot be garnered? So I look at it on both
8 sides. Who's going to end up paying for the \$10 million
9 per year for Premiera Blue Cross to go to the HIPAA
10 compliance, which will cost them \$30,000 in the end? As
11 a broker I know that if I can continue to go out and I
12 continue to lose physicians outside of the State of
13 Washington because there's no longer access because
14 they're not being paid enough to be able to make a
15 living, but at the same token if I'm delivering higher
16 rate increases with less access, eventually I, as a
17 broker, am going to be out of a job, and there's going to
18 be people who can't see the physicians they want to see.

19 So I see it from both sides. I actually represent
20 the majority of the medical clinics in the State of
21 Washington, so I see the physician's side. I see the
22 movement out of the State of Washington.

23 We also represent biotechs. I represent a city and
24 a county in the State of Washington. They can't absorb
25 the 50 and 60 percent increases anymore or the new state

1 mandates that come down. I also represent manufacturing
2 companies and airlines, so I have a pretty diverse book
3 of business.

4 In total, I represent about 72 clients. Our company
5 represents about 10,000 nationwide. I actually have
6 business in 17 states, so I actually see it from 17
7 different states' sides. So I don't so much look at
8 whether a company is a profit or a nonprofit. What I
9 look at is: Do they have the capital reserves so that
10 they can go ahead and continue to build the
11 infrastructure that's needed every time a new state
12 mandate comes down, and how does that impact my client's
13 bottom line? Am I going to deliver a 15 percent rate
14 increase this year or a 40?

15 So rate increases we're looking at this year are 15
16 to 20 percent. If I have to go out to a client now to
17 deliver a 30 to 40 percent because of Premera Blue Cross
18 having to deal with HIPAA privacy issues, the \$10 million
19 a year, the E-commerce requirements that are required by
20 both companies, I'm going to have a difficult time being
21 able to limit those increases to my clients.

22 As well the things that are important to me are
23 local management. I want to be able to make sure that,
24 when my clients call and have a need, I have local
25 management representation here, so I'm not calling a

1 1-800 number in New Jersey. We have that quite a bit.

2 The last comment I would like to make is, when I
3 actually came into the business 11 years ago, we had 18
4 insurance companies in the State of Washington.
5 Therefore, it was more of a free-market economy. What we
6 have today is we have one in receivership; we have four
7 that have left the state; we have six that are no longer
8 offering coverage or have moved out of the state due to
9 state mandates. There's only five viable insurance
10 companies left, and two of them are HMOs. At this point
11 when I go out to the client and I lay out that I only
12 have five viable options, they almost don't even want to
13 see what the options are in this state.

14 So the point is, I think, outside the fact we need
15 to be due diligent, going forward in what we're looking
16 at, we also need to be concerned about where the money's
17 going to come to continue to invest in the
18 infrastructure, the moneys that are needed for the
19 regulations that continue to incur in this state,
20 including the HIPAA regulations.

21 Thank you.

22 COMMISSIONER KREIDLER: Thank you very much.

23 Ellie, and following Ellie Menzies, I would like to
24 have Sarajane Siegfriedt come up and have a seat to be on
25 deck.

1 MS. MENZIES: Good evening and thanks for the
2 opportunity to be able to speak tonight. My name is
3 Ellie Menzies, and I am here representing the Service
4 Employees International Union, the Washington State
5 Council.

6 SEIU represents 57,000 workers across Washington
7 state. 30,000 of our members work in long-term care,
8 including home care in nursing homes. 16,000 are acute
9 care workers in hospitals, home health, and mental
10 health, and that includes over 6,000 registered nurses.
11 Over 10,000 are in the public sector, including state and
12 school employees.

13 For many reasons, we are very concerned about the
14 impact of Premera's proposed conversion for both
15 consumers and workers as well as for the other nonprofit
16 insurers, such as Group Health, in this state.

17 For instance, our newly organized independent
18 provider home care workers depend primarily on public
19 programs for their own healthcare, and in some parts of
20 the state, the programs they and their clients depend on,
21 like the BHP, Medicaid, and WSHIP, have contracts with
22 the state that depend heavily on Premera for providing
23 access to healthcare services. This is also true for our
24 6,000 members who are state employees. Premera covers
25 almost 300,000 enrollees in the public employees benefits

1 board across the state.

2 We have not yet taken a position supporting or
3 opposing this proposed conversion because we believe that
4 many questions remain to be answered. And we look
5 forward to working with you to ensure that the public's
6 interest in this conversion is thoroughly analyzed. We
7 are sure that before any conversion goes through, a
8 thorough analysis needs to be done of the impact it will
9 have on the cost of healthcare and access to coverage for
10 consumers across Washington.

11 Our members serve the public and see the
12 consequences of inadequate healthcare in our hospital
13 emergency rooms, in our mental health system, and in the
14 communities when our clients can't get access to needed
15 healthcare. We also see the impact when the costs rise
16 so that working families, both covered and not covered
17 through their workplace, the recently unemployed, or the
18 disabled can't afford the premiums either their premium's
19 share is too high or through copays increasing.

20 We have seen that, in other states, more and more
21 questions are being raised about whether or not it is in
22 the public's interest to approve conversion. And we have
23 seen serious questions about valuations that need to be
24 examined before this should be approved. We believe the
25 trust obligations the people of Washington need to be

1 very thoroughly examined and the assets properly valued
2 if a conversion were to be approved.

3 We look forward to a thorough analysis of Premera's
4 proposal on the healthcare needs -- excuse me -- a
5 thorough analysis on the impact of Premera's proposal on
6 the healthcare needs of the people of this state.

7 Thank you very much.

8 COMMISSIONER KREIDLER: Thank you very much.

9 Sarajane Siegfriedt.

10 And following her Gloria-Gordon Kinney, if she would
11 come up and take a seat, please.

12 MS. SEIGFRIEDT: I also wish to thank you for
13 providing this public hearing at an early point in the
14 process. My name is Sarajane Siegfried. I'm
15 representing only myself.

16 I am an insured of Premera. I pay \$212 a month for
17 a so-so policy that was more affordable than the COBRA,
18 which was totally unaffordable. So the difference
19 between what I used to have and what I'm able to
20 forward -- and I also am a citizen advocate. I consider
21 myself to be an informed consumer.

22 Based on that, I urge you not to approve this
23 conversion. I do not believe it is in the public
24 interest. I believe that it will increase costs
25 inevitably, and it will lessen the availability of

1 insurance because the profit line will be there. There
2 will be stockholders. It is undeniable, and it is
3 impossible for the mission to continue to be the same
4 under those circumstances.

5 We do know that shareholder interests will be a
6 concern for the management. We do know that the
7 valuation of stock becomes a driver, and that quarterly
8 reports become a driver, and that inevitably, there will
9 be far shorter planning and outcome choice than it would
10 be as a nonprofit. And if we know nothing about the
11 stock market at this point, we've learned that the
12 problem is that people are making decisions based on
13 extremely short event, and that this simply doesn't work.

14 So based on that alone, I would urge you to deny
15 this. If you do approve the conversion, I would urge you
16 to place the fullest valuation on all of the assets
17 including, you know, the fact that it is a going business
18 with a huge subscriber list and so on.

19 I have a concern about the foundations that will be
20 established and that those members be chosen not by
21 Premera at all, but by some process that would probably
22 include appointees by elected officials or elected
23 bodies. It would be a true public representation. And
24 they not be limited in how -- what they can do the stock
25 and, you know, how what the mission is that that be not

1 determined at all by Premera.

2 If we were truly to invest this money in similar
3 organizations, the only ones I can think of are Group
4 Health or the part of the University of Washington that
5 operates the hospital. I know that we've placed
6 unbearable burdens on the University Medical Center in
7 terms of continuing to fulfill its mission. In other
8 words, we take away and close down chemical dependency
9 treatment and then expect them to take all the of the
10 people who are suffering into the emergency room. And
11 this continues to worsen, and we need to pay attention to
12 that function and make sure that it gets funded.

13 But the real function is for middle class people to
14 continue to get insurance. We can think of a zillion
15 public health uses for this foundation funding, but what
16 about people just being able to access insurance, and
17 that really is the only comparable thing, and that's my
18 main concern.

19 I want to point out that Premera has injected
20 for-profit companies into its current operation,
21 particularly Magellan Behavioral Health Services, which
22 now manages behavioral healthcare for 70 million, 80,
23 90 million people in the country. It's a for-profit
24 company. It's inserted in the middle of this
25 not-for-profit operation so that, obviously, they're

1 making a profit off of this.

2 They're making the profit off of the backs the
3 behavioral healthcare providers and the chemical
4 dependency providers, whom some of you know I used to
5 represent. I no longer have that job because they can't
6 afford to have an association, an office, or a lobbyist.
7 That's closed down last spring, and I lost my job. That
8 is the money that Magellan is taking that used to go to
9 the providers. And this is not an acceptable situation.
10 So we can see what happens when you put the for-profit
11 into a not-for-profit situation.

12 Magellan is doing a terrible job of denying payment.
13 Most of people in the state who think they have coverage
14 for chemical dependency would be surprised to find out
15 that when they got to the door that they would be
16 declined. That's just a fact. So that really needs to
17 be looked at as an example of what happens when we put a
18 for-profit provider in the midst of that.

19 So I would challenge Premera to prove that this is
20 truly in the public interest. I personally cannot see
21 how it can be. And if we look at the condition of the
22 stock market, perhaps this is an idea whose time has
23 truly passed.

24 Thank you.

25 COMMISSIONER KREIDLER: Thank you very much.

1 Am I correct in saying Gordon Kinney?

2 MR. KINNEY: You're correct.

3 COMMISSIONER KREIDLER: And following Mr. Kinney, I
4 would like to call on Roger Conner to take the next
5 position here.

6 MR. KINNEY: Thank you and good evening all.

7 My wife and I are Plan J subscribers and have been
8 since 1997. And we're very, very unhappy with the poor
9 quality of service, particularly in the prescription
10 rebate service. For the past four years, we have been
11 fighting each month for rebates on time.

12 The biggest obstacle seems to be paid prescriptions
13 from New Jersey or, in some cases, Lee's Summit,
14 Missouri. We go through the process of calling up and
15 some excuse from the other end says we haven't done this;
16 we haven't done that. We wait a period of three to eight
17 weeks for the 50 percent rebate. And to say we have lost
18 our patience is really short.

19 We would like to know who these people are back
20 there paid prescriptions? What role do they play out
21 here for Premera in the rebate process?

22 And lastly our concerns, if you are permitted to go
23 public, will you provide better service than you have in
24 the past, particularly with us?

25 Thank you.

1 COMMISSIONER KREIDLER: Thank you very much,
2 Mr. Kinney.

3 MS. GREGOIRE: Thank you.

4 COMMISSIONER KREIDLER: Roger Conner. Maybe not
5 pronouncing it right. It's a little hard to read here.
6 Roger. Roger Conner.

7 Ms. Reed? Is there a Ms. Reed here, and I can't
8 pronounce the first name. I can't make it out here.
9 Ms. Reed? You've indicated to testify? Right here. Oh,
10 great.

11 Ms. Reed, if you would please come up, and then
12 following her would be Ruth Matthews. If Ruth would come
13 up and just be on deck, that would be great.

14 Ms. Reed?

15 MS. REED: Good evening and thank you for this
16 opportunity. I'm here representing myself.

17 MS. PRIGGE: Can you state your first and last name?

18 MS. REED: Aretha Reed.

19 MS. PRIGGE: Thank you.

20 MS. REED: I have some concerns about this proposal,
21 and simply for the fact that the cost of healthcare and
22 the mission of the current nonprofit company, I don't
23 think, has really lived up to its mission.

24 When you look back and there's been in the paper in
25 the '90s when your office, the insurance commissioner

1 said, and this wasn't the only company that didn't --
2 that didn't buy what you said about raising rates on
3 individual coverage. They did it anyway.

4 It was in the paper about the salary of the
5 then-president and CEO making as much as already a
6 for-profit company. Even the latter part of 1986,
7 besides a high salary, received a bonus of over \$100,000
8 for their performance going back to 1986 and '87. I see
9 the current ads on TV during prime time. I see the name
10 Premera at Safeco Field. I see money being spent for us
11 in the public, money that's being spent in those ways
12 that should be going to helping provide care for us as
13 the public and helping keep our rates down.

14 I know earlier this year there was an article in The
15 Times, too, questioning about the billing practices of
16 the company. I would just ask this committee to really
17 look into the company and make sure that they will
18 fulfill whatever their mission is in this endeavor.

19 Thank you.

20 COMMISSIONER KREIDLER: Thank you very much.

21 And Ruth Matthews. And following her, I would like
22 to call on Don Brunell, if you would come up and be on
23 deck.

24 MS. MATTHEWS: I speak only for myself, and I'm the
25 voice of naivetT and, I must say, cynicism and almost

1 scepticism, particularly in what has happened to our
2 country lately that has been disclosed.

3 I am a retired school teacher, and a great deal of
4 my retirement funds do go to Premera Blue Cross for my J
5 Program. And I was prepared to ask why this is being --
6 the plan is being put forth, and I heard the answers to
7 this this evening. And I was wondering before this I
8 heard it was to enhance the corporate salaries about
9 which we have witnessed of late. It certainly does not
10 provide security to those of us who have supported. And
11 I like to think of us as members rather than the term I
12 heard tonight frequently which was "customers."

13 I think it -- this plan, this change could be -- is
14 harmful. I think I have questions about its ethical
15 aspects and its morality. And it can be devastating to
16 many of its members, particularly those who are seniors
17 and those who are indigent and those in the middle class.
18 And to use a current terminology, the move from nonprofit
19 to profit is a preemptive move against affordable health
20 coverage for those of us whom I've just mentioned.

21 Thank you very much.

22 COMMISSIONER KREIDLER: Thank you.

23 Don Brunell. And following Don Brunell, Jeff Mero.

24 MR. BRUNELL: My name is Don Brunell.

25 COMMISSIONER KREIDLER: Go ahead.

1 MR. BRUNELL: I'm president of the Association of
2 Washington Business. And I would like to make it clear
3 right off the bat, right from the start, that AWB has no
4 position on the issue. And I also recognize that when I
5 speak, I also speak for AWB, so they're inseparable.

6 I believe that one of the reasons that we have --
7 and we have doctors, medical associations, hospital
8 associations, Premiera, Regence, a number of other folks
9 who are members of our organization, and our organization
10 hasn't taken a position on this issue, nor has it
11 considered it.

12 I think the other point I wanted to make is that we
13 are an association of employers who are very concerned
14 about the limited ability to get health insurance today.
15 I think what we would like to do is make sure that
16 whatever we come out of in terms of this conversion is
17 that we have an adequate market that is accessible and
18 affordable.

19 We also -- we've been involved in the healthcare
20 debate since I came to AWB in 1986, and one of the things
21 we know is that the issue is only going to get more
22 complicated as medical technology, as the aging
23 population goes up, including -- we're going to --
24 we're -- we need to address these issues.

25 Our organization as of 1995 has its own health

1 insurance plan that we offer to small businesses. We
2 started out with an employer E-choice model in which we
3 partnered with Premera, and we partnered with Regence.
4 We also partnered with Group Health at the time and First
5 Choice. That offered our members, our small business
6 members from -- that employed 2 to 50 employees both a
7 high, low, and HMO, high cost point of service, low cost
8 point of service, and a HMO program. Each of the three
9 carriers or four carriers offered that.

10 That plan was successful for about three or four
11 years. Unfortunately, with the cost of health insurance
12 and it just -- it really collapsed on itself.

13 Last, about three years ago we actually went out
14 with an employer-choice model because healthcare costs
15 were very, very important. And the costs of the
16 insurance was important to our members. So we, after an
17 RFP process, we did come to an agreement with Premera,
18 and right now we have about 400 companies representing
19 about 8,000 insured who are on this program, and that has
20 four levels of insurance service.

21 And so we have had a growing program with Premera,
22 and we have had a good experience. We had a good
23 experience with Regence as well as Group Health and First
24 Choice. I guess we're in the position -- we're taking a
25 look at how this conversion and the information that's

1 going to come out from the testimony and the hearings and
2 the investigation these folks are doing to look at,
3 number one, how it affects our members and, also, how it
4 affects our little health plan.

5 The final thing I would say is that, in 1995 when
6 the 1993 Health Law or Act failed, we met with Governor
7 Lowery at the time in his office and made the commitment
8 that, because there would no employer mandate to cover
9 employees, that we would offer an insurance program to
10 try and cover those folks who are not insured. And so
11 that -- we've kept that commitment. And of the 400
12 companies that are offering insurance today through our
13 plan, about 25 percent of those folks had never offered
14 health insurance before.

15 So we're hopeful that, regardless of how the
16 deliberations come out, that we can enhance those types
17 of programs because we think that, as an employer, we
18 want to offer health insurance. We want to offer our
19 members health insurance so we can cover folks. It's
20 just getting extremely difficult these days.

21 Thank you very much.

22 COMMISSIONER KREIDLER: Thank you.

23 MS. GREGOIRE: Thank you.

24 COMMISSIONER KREIDLER: Jeff Mero. And following
25 Jeff Mero, Lee Van Divers, if they would come.

1 MR. MERO: Good evening, my name is Jeff Mero. It's
2 a pleasure and a privilege to appear before you tonight.
3 I have a got written remarks that I'll leave with your
4 transcribers here.

5 I'm the executive director of the Association of
6 Public Hospital Districts in the State of Washington, and
7 you heard earlier from my president, Jean Roberts, from
8 McCleary.

9 I hope that not much of what I say contradicts much
10 of what Jean brought. We are here, as Jean said, to
11 oppose the proposed conversion of Blue Cross health plan
12 from its status as a nonprofit corporation. We believe
13 strongly that the conversion is not in the best interests
14 of Washington citizens or its healthcare system.

15 We represent more than 50 local governments across
16 the state, most of them located in the small rural
17 communities. Our members by and large were created by
18 and survive because they're sported by taxpayers who are
19 concerned about local access to healthcare. From our
20 perspective, for better or for worse, health insurance
21 today is an integral part of the financing and delivering
22 of the health services and medical care in the
23 communities where our members operate.

24 In part, that integration comes because it's been a
25 long time since pure medical insurance has been available

1 in the state. For the most part, what we're selling
2 today is prepayment for services with pricing based on
3 past experience. Financing and delivery are integrated
4 in the mind of the consumer and in the experience of the
5 provider.

6 We also believe that health services and medical
7 care are on a short list of goods which, by their very
8 nature, are not and cannot be treated as mere
9 commodities. The quality of our life, our capacity to
10 participate in social and economic activities, and often
11 life itself is at stake in each serious encounter that we
12 have with the medical care system. Our people depend on
13 competent, caring response to whatever broken condition
14 leads them to seek treatment.

15 We believe strongly that the public should not have
16 to worry that their insurer or their medical care
17 provider is motivated primarily by economic
18 self-interest. We believe that the public expects all
19 parts of the healthcare system to be professional in the
20 original sense of that term, motivated primarily by the
21 needs of those it serves. We believe much of the
22 antipathy that the public feels towards healthcare
23 providers to, including insurers, has the roots in the
24 fact that too many of our people do not believe that the
25 actions of their insurers or their caregivers are

1 motivated by the needs of the people paying the bills.

2 We believe that a move to for-profit status by one
3 of the state's largest health insurers, however
4 well-intentioned the motivation, must inevitably and over
5 time refocus that plan's management's primary
6 accountability away from insured people and groups and
7 toward shareholders. That focus, we believe, will create
8 powerful incentives for a converted Premiera to avoid
9 vulnerable, hard-to-serve populations, undesirable
10 geographic areas, and small rural communities.

11 Washington state -- you know this better than I
12 do -- Washington state has a long and solid history of
13 not-for-profit healthcare. For-profit insurers have
14 never been a significant part of the marketplace in
15 Washington; neither have for-profit hospitals. We are
16 fearful that this proposed conversion, should it occur,
17 will build strong momentum for a fundamental shift
18 towards for-profit medical care financing and delivery in
19 this state. We cannot imagine how a for-profit approach
20 to healthcare serves the best interests of the people in
21 our communities.

22 We look forward to working with you all and with
23 others who share or interests in the organization of
24 delivery of healthcare services in Washington. Thanks
25 for letting me speak to you tonight.

1 COMMISSIONER KREIDLER: Thank you, Jack. Good to
2 see you.

3 I called for Lee, I was pronouncing it Van Divers.
4 Larry Jacobson?

5 UNKNOWN SPEAKER: Larry had to leave.

6 COMMISSIONER KREIDLER: Randy Revelle? And
7 following Randy Revelle, Janet Varon. I believe the name
8 is Janet, if you would come up and have a seat next to
9 Mr. Revelle.

10 MR. REVELLE: Good evening. I'm Randy Revelle, vice
11 president for policy and public affairs of the Washington
12 State Hospital Association. I'm also a former public
13 official having served as King County executive and the
14 Seattle City Council.

15 The Hospital Association now represents 97 hospitals
16 in the State of Washington, including all of the
17 community hospitals in the state. For our hospitals,
18 Premera is a major healthcare insurer in the region.
19 We're concerned that Premera's proposed conversion to a
20 for-profit entity will have significant impacts on our
21 hospitals and the communities they serve.

22 As others have said, we've not had sufficient time
23 to understand the many significant ramifications of this
24 proposal. At a minimum, we're very concerned about the
25 time line. The transaction is too big with too many

1 potential issues to complete by the end of this year. It
2 does not give us or others adequate time to evaluate the
3 conversion, something none of us has faced before.

4 So if we don't have much information, why we are so
5 concerned? We are concerned because we've contacted our
6 counterparts in other states throughout the country where
7 conversions have been proposed and have happened, and the
8 news is alarming. The Maryland Hospital Association did
9 an extensive review of the conversion proposal from their
10 Blue Cross plan. The Association concluded that
11 conversion to for-profit status was unnecessary and not
12 in the public interest.

13 According to information that the Maryland
14 association obtained and shared with us, conversions in
15 other states have not had a positive impact on the public
16 or providers. From a survey of other state hospital
17 associations where conversions have happened, the
18 Association found that none of the health plans improved
19 their behavior in any area of public accountability,
20 subscriber service, or provider relations.

21 In fact, in California, behavior worsened regarding
22 responsiveness to state policy, level of payments to
23 providers, and the handling of disputed cases or claims.

24 In Kansas, the insurance commissioner concluded a
25 proposed conversion was not in the public interest

1 because premiums would need to rise by at least 7 percent
2 to meet the acquirer's profit goals. We certainly would
3 not want to see this happen in Washington state.

4 Do we know whether the experiences of other states
5 can be replicated here? No, we do not. We do know that
6 many of rural hospitals are worried that Premera, often
7 the only insurer in rural communities, will decide it is
8 no longer good business, profitable business to be in
9 rural areas.

10 We know many of our urban members are worried
11 Premera will cut its payments to them in order to
12 increase its profit margin. We are concerned the need to
13 make a profit will cause Premera to withdraw from certain
14 areas of the state and ultimately lead to fewer people in
15 the state with health insurance.

16 Despite the Office of the Insurance Commissioner
17 hiring many experts to help with the analysis, we don't
18 believe we can adequately get the answers to all our
19 questions in the next few months. There's certainly too
20 much for us to risk if this proposal is allowed to
21 proceed at such a fast pace.

22 Based on what we know now, we ask the Insurance
23 Commissioner and the Attorney General to reject the
24 Premera conversion proposal on the grounds that it is
25 hazardous to the insurance-buying public. We don't think

1 there's anything we will be told in the next three or
2 four months that will change our position.

3 Thank you very much for the opportunity to testify.
4 I've given you longer comments in writing and will be
5 happy to participate in the process.

6 COMMISSIONER KREIDLER: Thank you very much, Randy.

7 MS. GREGOIRE: Thank you, Randy.

8 COMMISSIONER KREIDLER: Janet Varon. Janet Varon.
9 And following Janet, we'll have Bob Crittenden.

10 Bob come up and be on deck, please.

11 MS. VARON: Thank you. My name is Janet Varon,
12 executive director of Northwest Health Law Advocates; I'm
13 an attorney. I'm here representing the Medical
14 Assistance Advisory Committee, also known as the Title 19
15 Advisory Committee. It's an advisory group made up of
16 consumer representatives, a variety of healthcare
17 providers, health plans, and public health
18 representatives. I am a consumer advocate.

19 I would like to read to you tonight a resolution
20 passed by the committee after a presentation from the
21 deputy insurance commissioner at our meeting last Friday.
22 "Resolve that the proposed Premera conversion should not
23 be approved without adequate review and public input
24 regarding the potential positive and negative impact on
25 participation in publicly funded healthcare programs,

1 access to providers for DSHS or basic health clients or
2 quality of care for these clients."

3 Factors to consider that may affect the impact on
4 public programs include: Potential sale or transfer of
5 public lines of business, which may change client choice
6 among health plans; changed commitment to participation
7 in public programs; changed commitment to community
8 improvement projects that may not directly benefit the
9 carrier's own enrollees; changed commitment to the bottom
10 line may affect the quality of care, rates paid to
11 providers. The precedential nature if the State approves
12 one conversion: This may lead to other conversions of
13 other health carriers. And the question of how endowment
14 funds will be used.

15 So and in addition, my organization supports the
16 other consumer groups' positions who spoke earlier.

17 Thank you very much.

18 COMMISSIONER KREIDLER: Thank you.

19 Dr. Crittenden. And following Bob, we'll hear from
20 Gary Kaplan.

21 Gary, if you would come up and be on deck.

22 DR. CRITTENDEN: Commissioner, Attorney General, my
23 pleasure to be here tonight. My name is Bob Crittenden,
24 past president of the Washington Academy of Family
25 Physicians. I represent them tonight. This is a group

1 of about 2500 family doctors in every -- actually every
2 community in the state, and we're heavily represented in
3 the rural communities as well as in the urban
4 communities.

5 We are very concerned about this particular
6 conversion for a lot of reasons. I think a lot of them
7 we already mentioned. I won't try to repeat them all,
8 but just from our view of it is that I don't think
9 there's been a conversion where there hasn't been
10 amalgamation or some sort of sale of the assets
11 someplace. There's one, I think, in maybe it's Minnesota
12 that really hasn't done that. But there's so few of them
13 that have not changed ownership and changed their
14 direction about who owns and what they're doing that I
15 think we have to look very cautiously about what this
16 means.

17 And I think people outlined a lot of questions that
18 need to be asked tonight, and I know you will look into
19 those. But I wanted to really ask hard -- want you to
20 ask hard questions about that. Since most of -- a lot of
21 our members are in rural areas, the comments about rural
22 communities is -- we support those.

23 Many of the communities we are -- Premiera is the
24 only insurer, and a lot of those physicians are on the
25 edge right now. I think financially -- they have very

1 heavy Medicare and Medicaid populations. The removal or
2 a substantial change in their market would really
3 destabilize those communities. We would really think
4 that we are going to have physicians who may or may not
5 be able to stay in those communities. I think that's a
6 great risk to them.

7 But anyway, the questions have been raised, and I
8 think been raised by many of the people. My comment I
9 want to make tonight is that, not only do we have to ask
10 the first question -- is it right and is it good for the
11 people in the state to convert? Are our patients, are
12 our people in the communities going to really benefit --
13 but if we do that, then we have to look at the valuation
14 and the independence of those funds and that they will be
15 used for the public good.

16 And the most important thing, I really wanted to
17 reiterate our support for you two in this process to
18 really hopefully support you in making some hard
19 decisions, because this will not be an easy process. And
20 I want to encourage you to be as critical and as
21 supportive of the people in the state as you can.

22 So thank you.

23 COMMISSIONER KREIDLER: Gary?

24 DR. KAPLAN: Thank you. I'm Dr. Gary Kaplan. I'm
25 the chairman and CEO of Virginia Mason Medical Center in

1 Seattle.

2 Virginia Mason has a long history with Premera Blue
3 Cross. In fact, our relationship dates back to the
4 mid-'40s when Premera was known as the Washington
5 Hospital Service. Like our colleagues in healthcare, we
6 have a lot of questions about the proposed conversion,
7 but we are open-minded as we seek the answers with you to
8 those questions.

9 Virginia Mason operated a health plan for a number
10 of years, and that experience gave us unique perspective
11 and insight into the challenges of the health plan
12 business in today's environment. Premera Blue Cross is a
13 company the Washington residents have come to count on
14 for many years, and we're confident that, despite any
15 change in status, with proper review and discussion,
16 Premera will only continue to strengthen their high
17 regard and consideration for their members.

18 However, as I mentioned, we do have some very basic
19 questions. If the conversion does take place, we have
20 two questions: What are the measures being taken to
21 assure that the community is getting a fair and equitable
22 valuation? And this had a been brought up by other
23 speakers tonight. And secondly, what are the specific
24 plans for the creation of a robust foundation to continue
25 to give back to the community for health initiatives? I

1 think we need significant more specificity.

2 If market forces, for some unforeseen reason, weaken
3 Premera's position as a for-profit company and they are
4 acquired, the relationships in the community would
5 undoubtedly see significant changes. And I think that's
6 the fear of many here tonight. So we would like to know
7 what the measures specifically that are being considered
8 to prevent such a hostile takeover.

9 And in the event of an acquisition, what would that
10 really mean for the residents in our state, for the
11 employers in our community, and the physicians and
12 hospitals in our region? We also wonder whether this
13 move would put more pressure on other nonprofit entities,
14 cascading, restructuring in the state's insurance
15 industry. And that's also been brought up tonight.

16 Despite these questions, we're confident that
17 Premera can answer these and many more questions as the
18 process moves forward, and all the many constituencies
19 will have an opportunity to evaluate their proposal.
20 We've come to know Premera as a company of high integrity
21 that has demonstrated its commitment to being a
22 constructive member of the healthcare community. We know
23 the climate in healthcare is challenging at best. We're
24 all facing that; we all have to deal with that.

25 Amidst all this chaos, we think most important is

1 the corporate philosophy and the market approach to
2 consumers, to patients that truly matters, not whether
3 the company is for-profit or not-for-profit.

4 Thank you.

5 COMMISSIONER KREIDLER: Thank you very much,
6 Dr. Kaplan.

7 I've gone through the list of names of individuals
8 who had indicated that they wished to speak tonight and
9 offer comments or questions.

10 Is there anybody left blank and have changed their
11 mind? I've learned this after a number of public
12 meetings like this. If nobody raises their hand or
13 indicates, I'm going to assume that there are none that
14 would like to speak and didn't indicate so when they
15 signed in.

16 We've done pretty well on our time tonight. Let me
17 just say that this is the first of four forums that we
18 are going to be holding around the state of Washington.
19 We have another one on Wednesday in Spokane and follow-up
20 ones that are going to take place in Vancouver and the
21 Tri-Cities.

22 The transcriptions that take place from this forum,
23 as they're transcribed, will be posted on our Web site.

24 We also want to make sure that after we've gathered
25 more information -- certainly some of the questions and

1 comments that have been offered tonight have given us
2 some insights into some of the things that we need to ask
3 our experts about so that we have complete information --
4 we'll have another opportunity when that -- we do have
5 further information for additional public comment and
6 anticipate another series of forums like the four we are
7 currently conducting around the state.

8 Let me urge you to check our Web site which is
9 Insurance Commissioner's Web site, which is
10 www.insurance.wa.gov. On that site there is an icon
11 which you can push that would take you to conversion, and
12 you'll have an opportunity there to see all of the
13 information that we're talking about here: A complete
14 filing, the transcript, all of the information that, as
15 we get it, we will be posting it there so it is available
16 to you and to the public at large.

17 Also, on our Web site there is a place where you can
18 actually have direct contact with our office by virtue of
19 e-mail. And that e-mail address, which is on that Web
20 site, but also the specific Web site is
21 conversion@oic.wa.gov.

22 I want to thank Attorney General Gregoire, her
23 staff, and my staff for coming here tonight to help with
24 this program. But most of all, I want to thank all of
25 you for participating in this public process. It's an

1 initial part of the process that we're involved in, but
2 it's invaluable, and I very much appreciate your
3 assistance.

4 Thank you all for coming.

5 (Proceedings concluded at 7:50 p.m.)
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C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and
Notary Public in and for the State of Washington, residing at
Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on
the 30th of September, 2002, and thereafter transcribed by me by
means of computer-aided transcription, that the transcript is a
full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or
counsel of any party to this action or relative or employee of
any such attorney or counsel, and I am not financially
interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and
affixed my official seal this October 5, 2002.

SUE E. GARCIA, CCR, RPR

GA-RC-IS-E305QB